



Capital Strategy

2019/20

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CORNWALL COUNCIL CAPITAL STRATEGY 2019/20 – 2022/23

1. Introduction

- 1.1 This Capital Strategy sets out how capital expenditure and investment decisions are made and how due consideration is given to both risk and reward, and the impact on outcomes.
- 1.2 It is an integral part of our financial and service medium to long term financial planning and budget setting process. It sets the principles for prioritising our capital investment under the prudential system and ensuring borrowing is maintained at a level that is affordable and sustainable for the Council.
- 1.3 It has been prepared in accordance with the CIPFA Prudential Code, 2017 edition, which requires councils to have in place a capital strategy demonstrating that capital expenditure and investment decisions are made in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

2. Background

- 2.1 Capital investment plays an important role in delivering long term priorities as it can be targeted in creative and innovative ways to meet our key strategic corporate and service objectives.
- 2.2 However, and within a challenging financial environment, there will only ever be a limited amount of resource available. It is therefore essential that our capital assets are used effectively and that we target investment to maximum effect by encouraging sustainable and inclusive growth that focuses firmly on **people, place** and **prosperity**; contributing towards the delivery of our Council priorities and fulfilling our statutory obligations:

- Healthy Cornwall
- Homes for Cornwall
- Green and Prosperous Cornwall
- Connecting Cornwall
- Democratic Cornwall



- 2.3 The Council is committed, along with key partners including the Local Enterprise Partnership and other public bodies such as Police and Health, to working together in delivering a new approach to managing our key assets and resources and to seek creative new ways of providing services which may require capital investment (One Public Estate):
- that delivers best value for our communities and taxpayers
 - that delivers benefits and enabled transformation that supports the delivery of the Council's key aims and objectives and a sustainable financial future
- 2.4 This strategy compliments the aims and objectives outlined in the [Community Strategy for Cornwall 'Future Cornwall'](#) – a joint framework that brings together the aspirations of public sector organisations across Cornwall to form a single long-term vision for Cornwall.
- 2.5 From 2020, Cornwall Council will largely be funded from local taxation – Council Tax and Business Rates. Through capital investment, the Council will seek to stimulate the Cornwall economy in order to advance business, commerce, jobs and economic prosperity across the county – and provide for a sustainable financial future.

Aims and Objectives

- 2.6 This capital strategy sets out the Council's governance procedures for the prioritisation, approval and monitoring of all capital investment. It provides an overview of how associated risk is managed and aims to ensure:
- capital expenditure contributes to the achievement of the Council's strategic plan.
 - resources are allocated optimally and deliver value for money.
 - access to sufficient long term assets to provide services are acquired and retained.
 - the capital programme is affordable, prudent and sustainable.
 - there is a clear and robust framework for making capital expenditure decisions.
- 2.7 Through this Strategy, the Council makes a clear distinction between capital investments, where the strategic aims will be considered alongside affordability; and treasury management investments which are made for the purpose of cash flow management.
- 2.8 Capital investments, as opposed to pure cash flow management decisions, will be made in line with the Capital Strategy priorities set out in this document. These decisions are clearly within the economic powers of the Council and there are strong governance arrangements in place that underpin the decision making.

Scope

- 2.9 This capital strategy specifically focuses on the selection and prioritisation of our capital investment and financing. It forms a key part of the Council's overall corporate planning framework and should be considered alongside other key Council strategies and plans including:
- Cornwall Council's 'Priorities for Cornwall'
 - Council Business Plan
 - Medium Term Financial Plan
 - Individual Service Plans
 - 'Organisational Development Framework' and component strategies
 - Investment Programme Strategy
 - Treasury Management Strategy
 - Local Transport Plan
 - Highways Maintenance Manual
 - New Frontiers Plan
 - Cornwall Local Plan
 - Local Neighbourhood Plans
 - Environmental and Growth Strategy
- 2.10 All capital schemes must comply with legislation and also Council policies, contract procedure rules and financial regulations.

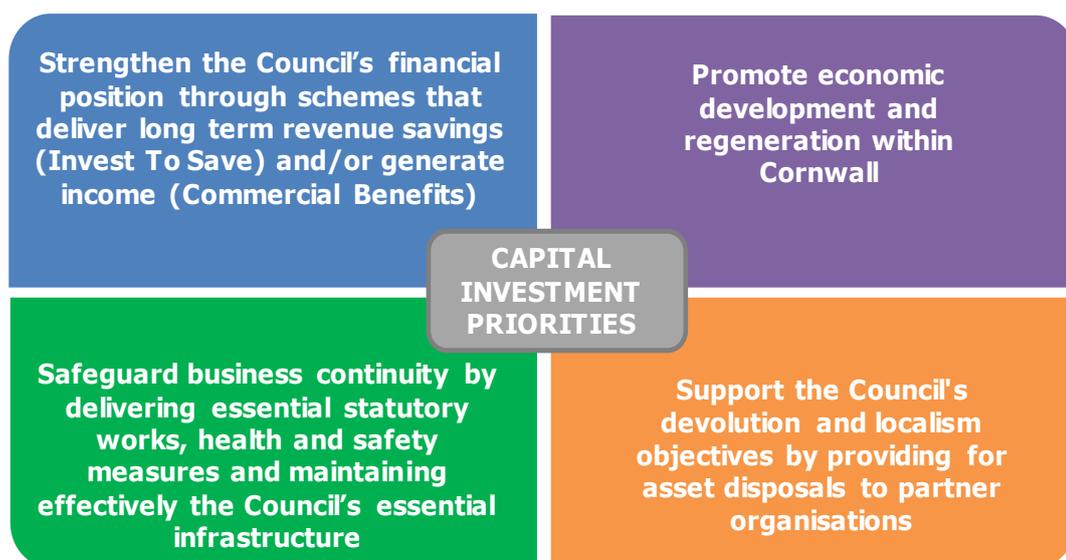
Legislative and Best Practice Framework

- 2.11 The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements, provided they have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities and Guidance on Local Government Investments issued by the Ministry for Housing, Communities and Local Government.
- 2.12 The framework established in this guidance supports local strategic planning, local asset management planning and proper option appraisal. The objectives are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
- 2.13 Key issues to be considered are:
- affordability, prudence and sustainability (e.g. implications for external borrowing, whole life costing and proportionality with regard to the overall resources)
 - value for money (e.g. option appraisal)
 - stewardship of assets (e.g. asset management planning)
 - service objectives (e.g. alignment with the Council's Strategic Plan)
 - practicality (e.g. whether the capital plans are achievable)
 - value for money (e.g. option appraisal)
 - stewardship of assets (e.g. asset management planning)
 - service objectives (e.g. alignment with the Council's Strategic Plan)
 - practicality (e.g. whether the capital plans are achievable)

2.14 The Code sets out a number of prudential indicators designed to support and record local decision making; these are approved and monitored as part of the Annual Treasury Management Strategy.

3. Prioritisation and selection

3.1 Schemes included for capital investment must demonstrate at least one of the following prioritisation criteria:



3.2 The governance and assurance processes that are in place to ensure capital investment decisions are made legitimately, transparently and deliver these priority outcomes are set out in detail in Appendix 3.

3.3 The four priority areas set out above covers the whole of the Council's capital expenditure and investment decisions, which once approved will form part of the Capital Programme. What constitutes Capital Expenditure and how it is funded is set out in detail in Appendix 1 and 2.

3.4 The Capital Programme is clearly defined into two main areas:

- 'Core' capital programme investment:
 - To promote economic development and regeneration within Cornwall;
 - To support the Council's devolution and localism objectives;
 - To safeguard business continuity by delivering essential statutory works, health and safety measures and maintaining effectively the Council's essential infrastructure;
 - To strengthen the Council's financial position through schemes that deliver long term revenue savings (Invest to Save).
- 'Investment Programme':
 - To strengthen the Councils financial position that generate income.

- 3.5 The aim of the Investment Programme is to help deliver the Cornwall Local Plan and Strategic Economic Plan in a manner that makes a financial return for the Council – to support vital services and to help Cornwall Council future proof against the expected loss of European funding and the continued reduction in financial support from Central Government. The separate [Investment Programme Strategy](#) approved in January 2019, sets out the Council’s approach towards capital expenditure and investment within this area.
- 3.6 In accordance with the Constitution the capital programme is approved by Full Council. The programme will be presented annually as part of the budget setting process and quarterly thereafter for any new additions and/or changes e.g. for programme slippage.
- 3.7 The Cabinet is responsible for setting the corporate framework and strategic priorities that drive the capital programme. Recommendations to Full Council for changes to the capital programme are made by the Cabinet, ensuring proposed investment is aligned to key corporate aims and objectives.
- 3.8 The Customer and Support Services Overview and Scrutiny Committee is responsible for the scrutiny of the budget process and Medium Term Financial Plan, Treasury Management Strategy and Capital Strategy and make representation to Cabinet and Full Council accordingly.

4. Knowledge and skills

- 4.1 All capital investment approvals are subject to robust consideration and challenge by members and officers from across the Council with extensive Local Government experience from varying professional backgrounds.
- 4.2 All officers attend courses on an ongoing basis to keep abreast of new developments and skills to ensure their Continuous Professional Development. Members are also offered training annually to ensure they have up to date skills and are able to make capital and treasury decisions.
- 4.3 The Council’s property portfolio is managed by its Property Services Team within Commercial Services. The team has extensive knowledge of the Cornwall property market and experience dealing with a mix of property types and professional work including professional services, landlord and tenant, statutory valuations, acquisitions and disposals, commercial and residential property management.
- 4.4 The Council’s asset valuations for its financial statements are assessed on an agreed five year programme covering the whole property portfolio. The Council also has internal building surveying resource to advise on construction, repair and maintenance, and statutory compliance matters across its property portfolio.

- 4.5 Where required, and with due diligence, the Council may also appoint external agents to advise on particular specialist matters or to access specialist expertise that may not be available 'in house.'

5. Risk Management

- 5.1 Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully and/or limit its ability to exploit opportunities.
- 5.2 Risk management is the process of identifying risks, evaluating their potential consequence and determining the most effective methods of mitigating them. It is both a means of minimising the cost and disruption to the organisation and of ensuring staff understand and appreciate the element of risk in all their activities.
- 5.3 Through effective risk management the Council aims to minimise its exposure to unwanted risk – those risks that are not actively sought and which carry no commensurate reward to the Council. This may involve transferring risk to a third party.
- 5.4 It is important to note that risk will always exist in some measure and cannot be removed in its entirety. Additionally, in order to realise investment and commercial gains, a measure of risk must be taken – and therefore risk should be considered both in terms of threat to the Council as well as positive opportunities.
- 5.5 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored – and especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.
- 5.6 An assessment of risk should be built into every capital project and major risks recorded in the Risk Register (see the Council's Risk Management Framework). This may include political, economic, legal and regulatory, technological, environmental, reputation as well as financial risk. By managing risk effectively, the Council is better able to make careful, well thought through decisions in full knowledge of the adverse risks that apply and mitigating measures.

6. Conclusion and Section 151 Officer Assurance

- 6.1 This Capital Strategy is compiled in line with the requirements of the 2018 CIPFA Prudential Code and 2018 Treasury Management Code.
- 6.2 The Section 151 Officer views the strategy to be prudent and affordable and it is fully integrated with the Council's Medium Term Financial Plan and Treasury Management Strategy.

- 6.3 The Capital Strategy, along with the Treasury Management Strategy, will be reviewed and approved annually by Full Council as part of the Council's budget and business plan setting process. In advance of that, and in accordance with best practice, it will also be presented for consideration to the Customer and Support Services Overview and Scrutiny Committee.

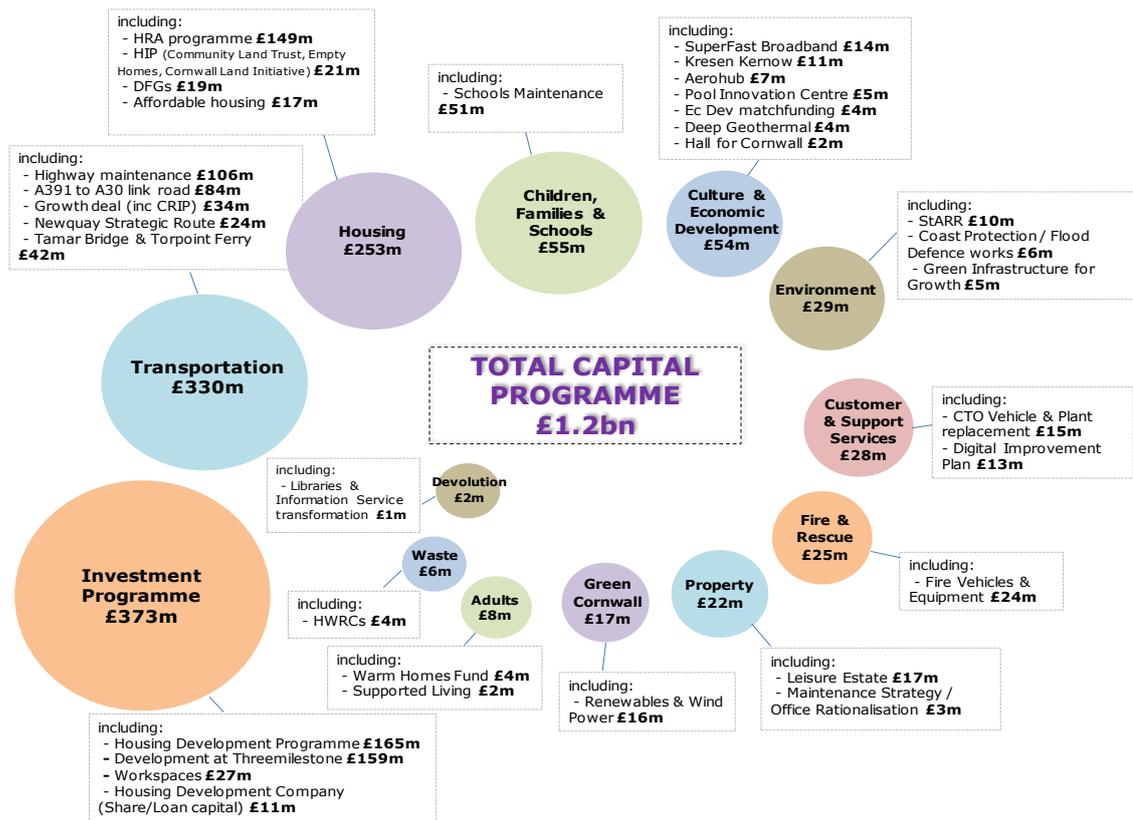
Appendix 1: Capital Expenditure

- Capital expenditure is made on the acquisition, construction or enhancement of assets (tangible and intangible) that have a long term value (i.e. more than one year) to the Council¹ such as:
 - buildings - schools, houses, libraries, museums, fire stations, etc
 - land – for development, roads, playing fields, etc
 - infrastructure – roads, pathways, flood defences
 - vehicles, plant and machinery – refuse collection vehicles, fire engines, IT systems etc.

It also includes grants and advances made to the private sector or the rest of the public sector for capital purposes.

This is in contrast to revenue² expenditure that is made on the day to day running costs of services such as employee costs and supplies and services. Expenditure which merely maintains the life, value or extent of use of an existing asset cannot be classified as capital expenditure.

- The current capital programme is for £1.2bn and is summarised below. It is managed around the following 'Board' structure:



[Figures as at February 2019; the capital programme is reported to Cabinet on a quarterly basis with a recommendation to Full Council for the approval of any changes to the overall programme value]

¹ Where it is in the interests of Cornwall Council e.g. for risk management and control, assets may be held within the Council's wider group of companies.

² The Secretary of State may, on occasion, make a direction whereby expenditure that would ordinarily be considered revenue in nature can be capitalised under strict conditions e.g. the flexible use of capital receipts.

3. The Council's accounting policies have a de minimis of £10,000 for capital assets; anything below this value is classed and treated as revenue.

Capital vs Treasury Management Investments

4. Treasury Management investment activity covers those investments arising from the Council's cash flows and debt management activity. The power to invest is set out in the Local Government Act, Section 12.
5. For treasury management investments, the security and liquidity of funds are placed ahead of investment return/yield. Treasury related activity, including the management of associated risk, are managed separately in accordance with the Council's Annual Treasury Management Strategy and are not covered by this Capital Strategy.
6. The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside normal treasury management activity. These may include service and commercial investments and are subject to the guiding principles outlined in this capital strategy:
 - service investments; investments held clearly and explicitly in the course of the provision, and for the purposes of operational services including regeneration
 - commercial investments; investments taken mainly for financial reasons e.g. purchase of investment property³
7. Latest guidance issued by the Secretary of State makes clear that borrowing to finance the acquisition of non-financial investments (e.g. commercial property investment) made purely for profit shall be considered 'borrowing in advance of need'.
8. The Council's policy on borrowing in advance of need forms part of the Annual Treasury Management Strategy. However, and to be clear, the Council will not borrow for capital investment made solely for yield generating opportunities. Under the Prudential Code if, exceptionally, the Council chooses not to have regard that provision, then an explanation should be brought forward explaining the rationale for its decision.

³ The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "...used solely to earn rentals or for the capital appreciation or both ..."

Cornwall Council Capital Programme

9. The following shows, by programme board, Cornwall Council's Capital Programme 2018 - 23 and funding. This shows that the Council currently plans to invest over £1.2bn over the next four years.

Around 30% of the programme is funded by external grants and contributions, a significant proportion of which comes directly from Central Government.

Over the next few years, prudential borrowing of circa £610m will be needed to support the Council's capital programme. The timing and form of that borrowing will depend on the Council's overall financial position and determined under the Council's Treasury Management Strategy.

Capital Programme Board	2018/19	2019/20	2020/21	2021/22 & beyond	Total
	£m	£m	£m	£m	£m
Transportation	69.677	61.611	103.731	61.411	296.430
Growth Deal	29.094	1.546	2.950	-	33.590
Housing	35.619	64.986	67.382	84.239	252.226
Culture & Economic Development	32.287	18.238	3.261	0.056	53.842
Property	9.284	3.394	2.283	6.544	21.505
Customer & Support Services	17.549	6.200	4.088	-	27.837
Children, Families & Adults	21.863	12.301	2.532	26.709	63.405
Devolution	1.623	0.716	-	-	2.339
Operational Asset Review (Fire & Rescue)	6.720	2.370	3.501	12.340	24.931
Environment	8.722	7.077	5.355	8.156	29.310
Green Cornwall	0.271	8.697	8.000	-	16.968
Waste	1.362	2.629	2.064	-	6.055
Investment Programme	38.704	129.688	82.170	122.735	373.297
Total Capital Programme	272.775	319.453	287.317	322.190	1,201.735
Funding					
General Fund Revenue & Reserves	41.753	37.516	3.511	21.968	104.748
HRA Revenue & Reserves	18.344	17.116	17.515	14.459	67.434
Prudential Borrowing	97.889	201.474	146.506	164.653	610.522
Capital Receipts	16.909	21.453	16.969	8.723	64.054
Grants & Contributions	97.880	41.894	102.816	112.387	354.977
Total Funding	272.775	319.453	287.317	322.190	1,201.735

Figures as at February 2019; the capital programme is reported to Cabinet on a quarterly basis with a recommendation to Full Council for the approval of any changes to overall programme value

The capital programme is managed around the following 'Board' structure, aligned to key Council services and objectives:

10. *Customer and Support Services*

Predominantly supporting the Digital Improvement Plan to ensure that the Council delivers improved Information Technology infrastructure that is fit for purpose and will enable easier working and upgraded communications.

Includes significantly:

- *Digital Improvement Plan*
- *CTO Vehicle & Plant Replacement*

11. *Culture and Economic Development*

Delivering a wide range of projects that aim to improve prosperity, create employment growth and promote the historic heritage and culture of the county.

Includes significantly:

- *New Archive Centre 'Kresen Kernow'*
- *Deep Geothermal project*
- *Superfast Broadband*
- *Newquay Aerohub*
- *Pool Innovation Centre*
- *Hall for Cornwall redevelopment*

12. *Children, Families and Adults*

Providing major enhancements to school buildings in order to ensure the required quality and standards of the infrastructure are met, along with the greatest possible provision of school places.

Additionally supporting some of the most vulnerable people in our society through schemes that help them to live more independent lives and provide a comfortable, safe environment in their homes.

Includes significantly:

- *Schools modernisation programme (including Basic Need, Schools Access Initiative and ex-PFI backlog)*
- *Special Education Needs*
- *Supported Living Schemes*
- *Warm Homes Fund*

13. *Devolution*

Particular focus on the Libraries and Information Service transformation programme which aims to deliver a comprehensive and efficient service that is easily accessible to all, recognising the differing needs of customers.

Includes significantly:

- *Libraries & Information Service transformation programme*

14. *Environment*

The Environment board supports projects that protect and enhance the natural environment, including open spaces, flood defence and coast protection, along with those relating to the Bereavement and Maritime functions.

Includes significantly:

- *Long Rock Strategic Coastal Improvements*
- *St Austell Resilient Regeneration project*
- *Green Infrastructure for Growth*

15. *Green Cornwall*

The development of renewable energy schemes intended to reduce the Council's carbon footprint and/or seek to achieve new income streams.

Includes significantly:

- *Renewables & Wind Power Opportunities*
- *Solar Energy projects*

16. *Growth Deal*

A programme of major strategic transport infrastructure projects including both road and rail improvements.

Includes significantly:

- *Cornwall Rail Improvements Project*
- *Cornwall Mainline*
- *One Public Transport System*
- *St Erth Multi Modal Hub*
- *Truro Western Corridor*

17. *Housing*

Incorporating both the Housing Revenue Account and General Fund housing functions, including improvements to the Council's own housing stock to meet the Cornish Homes Standard, the provision of new affordable housing for local residents and support through the provision of grant funding to enable adaptations to the homes of disabled residents in order to help them live independently.

Includes significantly:

- *HRA capital works*
- *Local Authority New Build schemes*
- *Disabled Facilities Grants*
- *Affordable Housing programme*
- *Community Land Trust*
- *Empty Homes project*
- *Cornwall Land Initiative*

18. *Operational Asset Review*

Oversees the programme of vehicle and plant replacement for the Cornwall Fire & Rescue Service.

19. *Property*

Provides control and governance to ensure that the corporate landlord function is carried out in accordance with, and be primarily responsible for compliance with, the Code of Practice for Land and Property transactions. Decisions around the use of land and property will also interact with the Devolution Board.

Includes significantly:

- *Investment in the Leisure Estate*
- *Property Maintenance Strategy*
- *County Farm capital works*
- *Various schemes within the Asset Rationalisation programme*

20. *Transportation*

A significant programme of improvements to the local highways network in line with the Local Transport Plan and the planned highways maintenance programme. This includes schemes to reduce congestion at key locations, those which improve the condition of the road surface and those which improve the safety in order to reduce the risk of serious collisions and fatalities.

Includes significantly:

- *Local Transport Plan*
- *Structural Maintenance of Carriageways and Structures*
- *St Austell to A30 Link Road*
- *Newquay Strategic Route*
- *Newquay Airport capital works*
- *Tamar Bridge & Torpoint Ferry capital works*

21. *Waste*

Delivering enhancements across the waste service, in particular, to the Household Waste Recycling Centres (HWRC) in order to improve the capacity and standard of facilities available to the public.

Includes significantly:

- *Camborne/Pool/Redruth, Newquay and Truro HWRCs*

22. *Investment Programme*

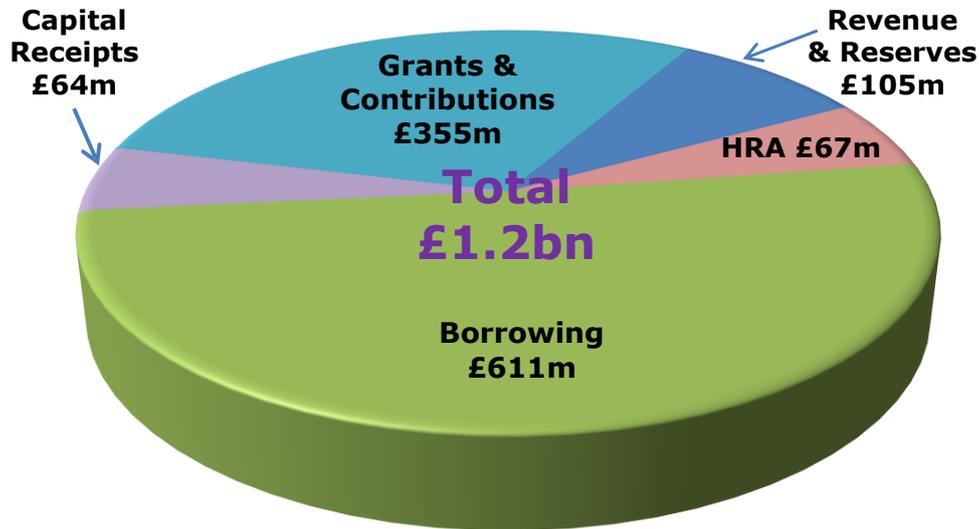
A significant long-term programme being delivered to create wealth through a range of investments that seeks to grow the economy; improve choice; and assist in the delivery of quality homes and jobs supported by essential infrastructure and underpinned by a financially sustainable model.

Includes significantly:

- *Housing Development Programme / Company*
- *Development at Threemilestone*
- *Treliever Creative Village*
- *Acquisition of Carlyon House*

Appendix 2: Capital Financing

1. The level and availability of capital funding determines the size of the overall capital programme. There are largely two main funding streams, external grants and contributions and direct funding from the Council.
2. The current capital programme, totalling £1.2bn, is funded as follows:



External Grants and Contributions

Government Grants and Other Public Bodies

3. The largest form of capital funding comes through as external grant allocations from central government departments such as the Department for Transport and Department for Education.

The Council will also receive capital funding from other organisations such as European Regional Development Fund (ERDF), Environment Agency (EA) and Heritage Lottery Fund (HLF).

4. These will be applied to fund specific capital expenditure / service outputs for which the allocation is intended e.g. transport infrastructure, school buildings, disabled facilities. These are all priority service areas.
5. The Government may also, from time to time, announce additional funding for essential works and/or key strategic projects such as:
 - Pothole funding
 - A391 St.Austell to A30 link road
 - Growth Deal programme
 - Special Education Needs
 - West Carclaze Garden Village
6. Additional Government grant funding notifications may yet be received and these will be incorporated into the programme as appropriate.

Other External Contributions (Private Developer Funding)

7. Elements of the capital programme are funded by contributions from private sector developers and partners.
8. Through partnership working, and by using funding set aside for match funding, the Council will seek to attract investment into Cornwall. Where it is commercially advantageous to do so, it will also work with developers to better utilise redundant assets and land to bring them into a useful economic purpose to facilitate regeneration and employment creation. It will also work with other public sector agencies, such as Health, to consider projects that are mutually beneficial.
9. In some cases, contributions are made to mitigate the impact of a development on communities by negotiation of a 'planning obligation' with the developer – commonly referred to as a Section 106 agreement. Such contributions are usually earmarked for specific purposes in planning agreements and often related to infrastructure projects.

Developers may also contribute to Highways Infrastructure through Section 38 and 278 agreements to facilitate their development.

10. Also, from January 2019, the Council will introduce a new levy on commercial development; the Community Infrastructure Levy (CIL). The Levy will raise funds from new housing and commercial developments across Cornwall and be spent on a wide range of infrastructure projects to help communities manage the impact of development in Cornwall.

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| <ol style="list-style-type: none">11. Where there is a requirement to make an application to an external agency for funding and, potentially, to commit Council resources as match funding to any bid, then a business case must be presented to Investment and Commercial Board (ICB) for consideration and, if supported, to Council for approval (see Governance and Assurance). |
|---|

No bid for external resources should be made without prior approval.

Direct Funding From the Council

Prudential Borrowing

12. Under the Prudential Code for Capital Expenditure for Local Authorities, the Council is permitted to undertake unsupported borrowing (e.g. from Public Works Loan Board) to finance capital expenditure provided that it is affordable, prudent and cost effective.
13. This type of borrowing has revenue implications for the Council in the form of financing costs including:
 - interest payable to external lenders; and
 - minimum revenue provision (MRP), an amount set aside for repayment of the principal debt⁴

⁴ Note: the charge in the first year will consist of interest only and will be based on the amount borrowed for a full year. However there will be no principal (MRP) element payable in the first year and this will commence in the year following completion.

14. The level of borrowing to fund the capital programme must take into account the revenue implications. As a guide, borrowing incurs a revenue cost burden of approximately 5.2% of the loan each year i.e. for every £1million of borrowing, this will incur additional revenue costs of circa £52,000 per annum. This is calculated as follows:

Annual Interest Payable	2.7%	<i>the prevailing long term PWLB rate at the time (figure quoted is the 50 year rate, as at 28 January 2019)</i>
plus MRP	2.5%	<i>assumes repayment over 40 years; will be higher for shorter repayment periods</i>
Total revenue cost of borrowing	5.2%	

15. Exact costs will depend upon the asset life associated with the particular capital investment and available interest rates. These are in addition to any ongoing maintenance and running costs associated with the investment.
16. There are close links between the Capital Strategy and Treasury Management Strategy. This capital programme determines the borrowing need of the Council, essentially the long term cash flow planning to ensure the Council can meet its capital spending obligations.
17. Local authorities must manage their debt responsibly and decisions about borrowing are made in consideration of prudent treasury management practice, as outlined in the Council's Annual Treasury Management Strategy.

The funding of a project from prudential borrowing is subject to there being sufficient headroom/capacity within the Council's prudential indicators. The following broad principles have been agreed and should apply:

- i. prudential borrowing can be used (in part or potentially in full) to finance capital expenditure
- ii. the borrowing should be based on a maximum repayment period of 50 years (or the estimated lifespan of the asset, whichever is the shorter).
- iii. this is subject to:
 - a. the assets being maintained over that period to an acceptable lifecycle standard
 - b. sufficient provision to cover additional revenue burden is reflected in the financial model presented as part of the business case.

Revenue Funding (including reserves)

18. The Council can use revenue resources to fund capital projects on a direct basis (CERA – capital expenditure charged to revenue account). However, the impact of austerity on the Council’s revenue budget and Council Tax levels has limited the extent to which this may be exercised as a source of capital funding.
19. The Council will regularly review its reserves to identify resource that can be used to deliver Council priorities including, if appropriate, additional capital investment.
20. The Economic Development Match Fund and Capital Financing Reserve are the Council’s main reserves set aside for financing future capital investment and/or wider regeneration initiatives (revenue or capital).

Leasing

21. Services may enter into finance leasing agreements to fund capital expenditure. However a full option appraisal and comparison of other funding sources must be made and the Council’s Section 151 Officer must be certain that leasing provides the best value for money method of funding the scheme.
22. Under the Prudential Code, finance leasing agreements are counted against the overall borrowing levels when considering the prudence and affordability of the authority’s borrowing.

Capital Receipts

23. The Council is able to generate capital receipts⁵ through the sale of surplus assets such as land and buildings. These receipts are ring fenced, under statute, to fund capital expenditure and cannot, in the normal course of events, be used for revenue. Receipts under £10,000 are de minimis and classed as revenue.
24. Capital receipts from asset disposal represent a finite funding source. The general policy is that any capital receipt is pooled and used to fund future capital expenditure in line with council objectives and priorities.
25. However the following exceptions apply:
 - County Farms; 40% of receipts will be retained for the maintenance and improvement of the County Farms estate.
 - Housing⁶; in accordance with legislation, retained HRA derived proceeds are ring-fenced for reinvestment in housing projects.

⁵ Section 9 (1) of the Local Government Act 2003 defines a capital receipt as ‘a sum received by the authority in respect of the disposal by it of an interest in a capital asset’

Section 9 (2) of the Act defines a capital asset as ‘an asset is a capital asset if, at the time of disposal, expenditure on the acquisition of the asset would be capital expenditure’

⁶ Capital receipts arising from the disposal of housing assets and for which account is made in the Housing Revenue Account (HRA), are governed by the Local Authorities (Capital Finance and Accounting) (England) Regulation 2003. In summary the regulations require that receipts arising from:

- Cornwall Land Initiative; receipts will be reinvested / recycled for the further advancement of this scheme.
 - Sales of particular assets that are intrinsically linked to a wider associated development e.g. sale of adjacent land that is used to bring forward a wider site regeneration project.
 - Revolving loan initiatives.
 - Where the sale of an asset leads to the requirement to repay capital grant, then the first call on the capital receipt shall be for this purpose.
 - Investment Programme; receipts from the sale of any assets funded via the Investment Programme to be retained and reinvested / recycled for the further advancement of this scheme.
 - Where otherwise explicitly approved by Cabinet.
26. A schedule of planned asset disposals and anticipated capital receipts is maintained and reviewed on a regular basis by Property Services. All forecasts are based on estimated disposal values of identified properties and prudently reflect local market conditions and risks associated with each property.
27. Capital receipts are monitored closely to ensure amounts already held, or likely to be realised in the near future, are sufficient to meet funding commitments assumed within the capital programme.

Flexible use of capital receipts

28. The 2015 Autumn Statement announced a new flexibility for local authorities to use capital receipts from the sale of property, plant and equipment to fund the costs of service reform. Whilst initially for the period 2016/17 to 2018/19, the Communities Secretary, as part of the provisional settlement in December 2017, extended that power/flexibility up to March 2022.
29. Accordingly capital receipts generated between 1 April 2016 and 31 March 2022 can be used to fund Transformation provided the Council has agreed a Transformation Programme setting out the projects, costs and deliverable benefits / savings. Councils can only use sale proceeds realised over that period, and not existing capital receipts.
30. Local Authorities are required to publish their plans for the flexible use of capital receipts in a strategy that is approved by Full Council. Previously this has formed part of the Council's annual Medium Term Financial Plan, as permitted by the guidance, but from now on will be incorporated within this Capital Strategy. The flexible use of capital receipts strategy, and the Council's intended use of that flexibility, is set out at Appendix 5.

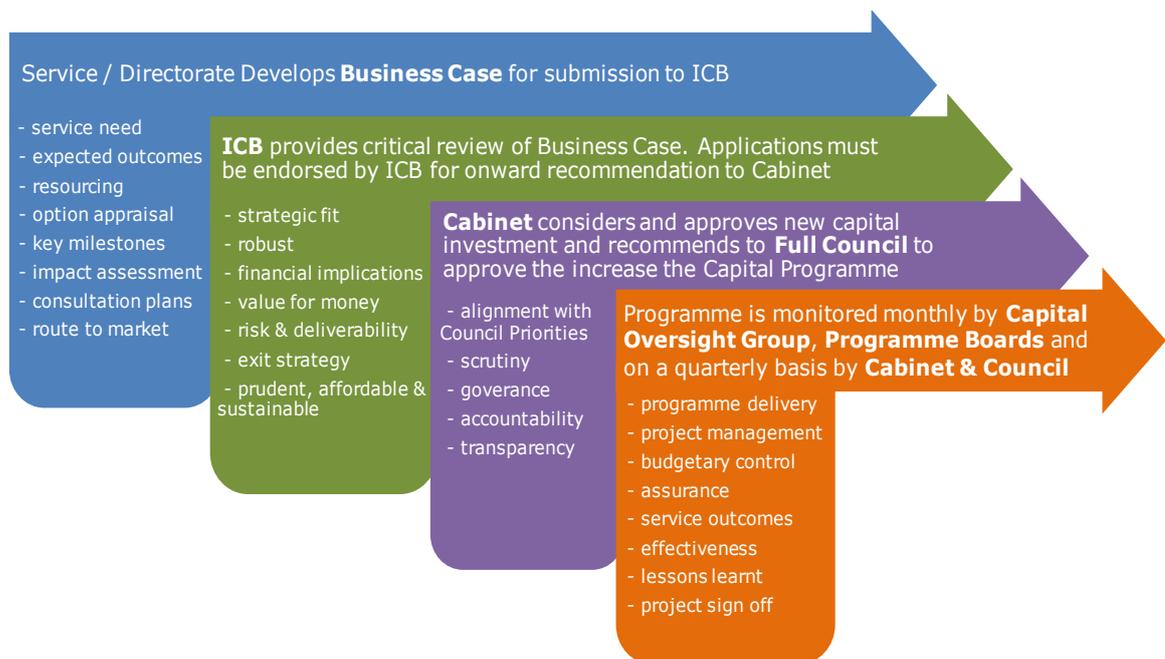
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- i. Right to Buy (and similar) sales may be retained to cover the cost of transacting the sales and to cover the debt on the properties sold, but a proportion of the remainder must be surrendered to Central Government (under pooling arrangements).
 - ii. All other disposals may be retained in full provided they are spent on affordable housing, regeneration or the paying of housing debt.

Appendix 3: Governance and Assurance

1. The Council has agreed a number of corporate aims, priorities and objectives; these are set out in the Council Plan and Business Plan and – in financial terms – the Medium Term Financial Plan.
2. The Medium Term Financial Plan, which covers both the Council’s revenue and capital plans for the next four years, is approved annually by Full Council alongside the Annual Treasury Strategy, and, going forward, this Capital Strategy.

Sat behind these are the financial procedures, rules and regulations which provide day to day operational guidance and safeguard the Council’s interests.

3. The following outlines the governance arrangements that are in place to ensure capital investment decisions (including loans and grants) are made legitimately, transparently and deliver priority outcomes in line with Council and service aims and objectives. Officers are not authorised to commit expenditure without prior formal approval.



- Schemes considered for inclusion in the capital programme must demonstrate at least one of the following prioritisation criteria:



Democratic Decision Making and Scrutiny

- In accordance with the Constitution, and enshrined in statute, the capital programme is approved by Full Council. The programme will be presented annually as part of the budget setting process and quarterly thereafter for any new additions and/or changes e.g. for programme slippage.
- The Cabinet is responsible for setting the corporate framework and strategic priorities that drive the capital programme. Recommendations to Full Council for changes to the capital programme are made by the Cabinet, ensuring proposed investment is aligned to key corporate aims and objectives.
- The Customer and Support Services Overview and Scrutiny Committee is responsible for the scrutiny of the budget process and MTFP, treasury management strategy and capital strategy and will make representation to Cabinet and Full Council accordingly.

Robust Project Planning and Development

- Strategic Directors, in conjunction with their wider Directorate Leadership Team (DLT), are responsible for the development, implementation and monitoring of capital projects within their remit.
- For projects to be considered for inclusion within the capital programme, Strategic Directors should bring forward (see below) fully worked up business case demonstrating how investment best meets Council objectives. The Council has adopted the HM Treasury 5 Case Business Model and will include:
 - expected outcomes aligned to key corporate objectives and / or service need
 - resource implications
 - alternative option appraisals

- project management and delivery including key milestones, consultation plans and impact assessment
- route to market

10. Under normal circumstances it is expected Service Directors will fund the additional revenue cost of capital schemes from within existing budgets. This may require a transfer of budget to other services and/or the central capital financing budget for the ongoing additional borrowing costs.

It is also expected that the relevant service budget will underwrite any funding shortfall if, for whatever reason, a capital project overspends and/or other assumed funding streams do not come to fruition.

If appropriate, and subject to sufficient funds available, services may receive additional financial support from the corporate 'Invest to Save' revenue fund. This for initial up front set up costs and/or to meet temporary shortfalls pending the delivery of expected savings.

11. Before business cases are brought forward for consideration, Service Directors should ensure that portfolio holders are briefed and understand the service need, financial implications and risks of proposed capital investment.

Service need may be for any number of purposes but may include for example:

- to meet a particular service demand or improvement
- in response to a deficiency in the condition, suitability and sufficiency of the existing stock recognised in asset management planning
- delivering a comprehensive and rolling strategic capital investment programme e.g. the Local Transport Plan
- to improve service delivery and meet key performance targets and/or deliver revenue savings
- in response to Government initiative and new laws and regulations
- the need to generate a revenue income to contribute to the funding of services

12. This strategy recognises that in some cases Government grant allocations are made directly for specific service areas, schemes or priorities. In these instances, grant funding (and other 100% externally funded schemes) will normally be brought into the capital programme and earmarked to specific service outputs for which the allocation is intended; subject to confirmation of the external funding, project fit with Council priorities and consideration of associated revenue implications.

The Strategic Director responsible will determine and bring forward projects to be funded from these resources that deliver service outcomes and achieve value for money.

Project Appraisal, Prioritisation and Selection

13. All capital schemes must be first considered and endorsed by the **Investment and Commercial Board** (ICB) for onward recommendation to Cabinet and, ultimately, to Full Council for final approval.
14. The ICB is an independent advisory board and meets regularly throughout the year to consider and appraise new capital applications and to ensure the capital programme is routinely updated and flexible to take opportunity of any capital investment opportunities that might arise. The Board is made up of Service Directors from across the Council.
15. The ICB Terms of Reference, process guidance and suite of templates can be found at <http://cornwallcouncilintranet.cc.cornwallonline.net/need-to-know/commercial-services/investment-and-commercial-boards-icb/>
16. Business cases must be worked up for consideration by ICB that provide a comprehensive assessment of the rationale, objectives and funding proposals for projects (see above). This ensures that the Council only engages in schemes that are financially robust, demonstrate value for money and are aligned to the Council's strategic priorities.
17. The ICB, in considering an application for capital investment, will form a judgement based on many factors including:

Strategic Fit

- Alignment to Council and/or service plan priorities and objectives
- Addresses major infrastructure investment
- Strategic acquisition e.g. location of the property is of wider strategic value and will bring added value to the estate
- Partnership involvement

Financial Implications

- Delivers approved revenue budget decisions/savings
- Create sustainable income e.g. from additional council tax or business rates
- Whole life cost of the proposal and revenue impact
- Affordability and source of funding

Expected Outcomes

- Improvements in service delivery and/or efficiency
- Fulfilment of statutory duties
- Economic value e.g. delivers job growth
- Impact assessment
- Other benefits and success criteria e.g. links to other regional objectives (Local Enterprise Partnership)

Risk and Deliverability

- Timescales and the capacity to deliver
- Exit strategy

18. The Section 151 officer is a member of the ICB, and will take a view on the prudence, affordability and sustainability of the overall capital programme.
19. The governance process for approving capital investment within the Investment Programme is, essentially, the same as that for the wider capital programme outlined above.

As with any other capital expenditure, proposed capital investment made under the Investment Programme is subject to robust peer review and the risks associated with the investment explored – however, due to the specific nature of such proposals, these are considered by a separate **Investment Programme Assurance Group**.

Performance Management / Monitoring the Capital Programme

20. Each approved capital project is assigned to a specific capital budget holder that is responsible for the delivery of projects in line with agreed timeframes, outcomes and approved budget limits. Budget holders are required to bring forward regular financial forecasts that inform the corporate performance reporting process and identify, as soon as possible, any anticipated project slippage and impact.
21. The capital programme is routinely monitored on a monthly basis, and any proposed variances or changes thereto formally reported to and scrutinised by the Council's Leadership Team and Cabinet on a regular basis as part of the quarterly council performance reporting cycle. Reports will include proposed changes to the capital programmes, for onward recommendation to Full Council, arising as a result of for example:
 - new resource allocations
 - slippage in programme delivery
 - programmes reduced or removed
 - transfers between schemes and programmes to maximise delivery

Where, for whatever reason, a project must be re-profiled then this will be made in consideration of likely service impact.

22. **Programme Boards** are in place for each of the major programmes within the capital programme e.g. Transport and Infrastructure, Property, Education, Environment and Housing. The boards meet on a monthly basis to ensure that any key issues are resolved, risks mitigated and budget pressures are identified. These boards will also discuss, and recommend for approval to DLT and ICB, any new and emerging capital projects which are considered a priority.
23. Capital expenditure and achievement of the capital plan is monitored by the **Capital Oversight Group (COG)**. The purpose of this group is to ensure there is a corporate body in place that will oversee and, where necessary, recommend to Cabinet/Council all relevant decisions associated with the monitoring, profiling and delivery of the capital programme.

24. The main focus of the COG is to:
- provide overview of total spend and resources for the capital programme
 - review effectiveness of monitoring by Programme Boards
 - receive escalation of issues direct from Programme Boards
 - review timescales and proposed profiling of capital programme and budget transfers between schemes
 - take ownership of the programme reporting to Cabinet
 - report and provide assurance to the Council's Leadership Team on the delivery of the capital programme.

The responsibilities of the COG do not detract from the individual accountabilities of those responsible for the development, implementation and completion of projects within capital programme.

25. Service Directors, on completion of projects, are expected to undertake post scheme evaluation review for all significant capital works. Reviews should consider the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc and identify good practice and lessons learnt.
26. Annually, as part of the budget process, the Capital Programme is reviewed to ensure projects remain deliverable, affordable within the level of resources available and continue to contribute to the Council's key strategic objectives. Any project – and funding - that fails to satisfy those conditions will be considered for alternative use and/or removal from the programme altogether.

Appendix 4: Asset Management

1. The principle of Cornwall Council Asset Management practices are to balance costs, opportunities and risks against the desired performance of our assets to achieve corporate objectives, and optimise the delivery of value.
2. The objective of Cornwall Council Asset Management approach is to apply a systematic approach to the governance and realisation of value from the tangible assets (physical objects such as buildings or equipment) and to intangible assets (such as human capital, intellectual property and/or financial assets).
3. Council recognises the benefits and objectives of Asset Management to include:
 - Enhanced satisfaction from improved performance and control of non-performance;
 - Improved health, safety and environmental performance;
 - The ability to demonstrate coherent and sustainable planning and investment decisions;
 - Demonstrate evidence of controlled processes to meet legal, regulatory and statutory requirements alongside strong returns on investment; and
 - Improved risk and opportunity management with corporate governance and clear audit trails.
4. A process of physical asset management has started by forming an initial systematic base line approach to developing, operating, maintaining, upgrading and disposing of physical assets in the most cost-effective manner.

Real Estate

5. The Council has a real estate portfolio of 9,132 assets of land and buildings, with a market value of over £2bn that are held mainly for operational service requirements and administrative buildings.
6. To achieve a robust and sustainable cycle of real estate asset management and achieve strategic alignment with corporate objectives, a corporate landlord real estate management approach has been developed.
7. The aim of corporate landlord is to guide the future shape and direction of the property estate management to ensure that the portfolio of land and buildings is optimally structured to perform and deliver corporate and service aims.
8. By applying an effective real estate asset management strategy, the benefits will include:
 - Assets aligned with financial objectives and service aspirations and customer needs;
 - Devolution of services to the locality with community asset transfer where appropriate;
 - Ensuring the right mix of property interest to provide both flexibility and surety;
 - Integrated service delivery through co-location with partner organisations, improving property efficiency, choice and accessibility for customers;
 - Cooperative estate service provision driving economies of scale;

- Improving the sustainability of the corporate estate;
- Better targeting of funding by reducing revenue cost and identifying long term capital investment needs;
- Challenging the retention of assets, introducing innovative non-asset dependent service delivery models; and
- Ensuring appropriate long-term investment in maintenance and statutory property compliance.

Real Estate Asset Management

9. The role of asset management is in essence to become a service property partner to implement a centralised and standardised asset management practice across 23 service estates to ensure there is alignment of estates to services' priorities, corporate estate financial targets, and RICS Public Sector Asset Management guidelines and standards across the full estate.
10. The primary aim of asset management will be to act as property partners for directorates, to set 5 year service estate improvement plans that drive better use of space for each service, whilst managing estate in line with the overall estate financial plan, and to ensure properties are managed to industry recognised standards.
11. The Asset Management Group (AMG) has been re-launched to start the co-ordination of purchases, reallocations, and disposals of properties, and once the estate services improvements plans are in place the continued monitoring an annual review.

Capital Projects Team

12. The Capital Projects Team, part of Commercial Services, is the main delivery route for major construction and infrastructure projects within the Council. This team provides support and assistance in all aspects of planning and delivering major projects from inception and feasibility through to the final handover, including the management of risk and project budgets.

Early engagement with the team is imperative to ensure planned projects are viable and robust.

Roads and Highways

13. Cornwall Council adopts an Asset Management approach to the management of its highways assets that:
 - demonstrates a systematic approach to highways maintenance which takes a long-term view of treatments
 - applies lifecycle planning and costing in the consideration and determination of the most appropriate maintenance treatments over the life of highway assets; this to inform the optimal treatment at each stage of the asset's life.
 - considers customer expectations and defined levels of service - as outlined in the Highways Maintenance Manual and aligned, as far as reasonable practicable, to the national code of practice.
 - optimises and prioritises works based on assessed needs derived from the defined levels of service

All of the above, when implemented in a formalised framework approach, enables better decision making which takes account of the relationship between cost and performance.

14. The Highways Maintenance Manual (HMM) sets out how Cornwall Council manages and risk assesses the maintenance of its highways to fulfil its statutory obligations and deliver a safe, serviceable and resilient highway network. Taken as a whole the HMM sets out how the Council complies with the objectives and recommendations set out in national guidance documents and in particular the UK Roads Liaison Group Code of Practice “Well Managed Highway Infrastructure” published in October 2016.
15. The *Local Transport Plan* includes details and plans for the authority’s transportation and infrastructure assets.

Other

16. Local Authorities have a statutory duty to ensure a sufficient supply of primary and secondary school places, including suitable provision for vulnerable children and those with additional needs. The Pupil Place Planning Strategy sets out the how the Council aims to deliver the required provision and forms the basis for the development and implementation of the Schools Capital Programme.
17. Vehicle, Plant and Equipment replacement policies and asset registers are maintained and managed by the Central Transport Organisation and Cornwall Fire & Rescue Service. The Council’s Information Technology assets and their development are managed within Information Services (part of Customer Access and Digital Services).

Procurement and Value for Money

18. Procurement is the purchase of goods and services and lies at the heart of delivering value for money.
19. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract.
20. It is essential that all capital procurement is made in accordance with the Council’s Contract Procedure Rules and Procurement Policies; and that contracts are managed effectively in accordance with the Council’s Contract Management Operating Model and Toolkit.

Guidance on this can be sought from the Commercial Services team – who provide the corporate leadership, policy, advice and support to the Council in all its commissioning and procurement activity - or at the following:

<http://cornwallcouncilintranet.cc.cornwallonline.net/need-to-know/commercial-services/>

Appendix 5 – Flexible Use of Capital Receipts Strategy

Background

1. As part of the November 2015 Spending Review, the Government announced it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation.
2. Guidance on the use of this flexibility was originally issued in March 2016 which applies to the financial years 2016/17 through to 2019/20 – however the Government, in the Provisional Local Government Settlement 2018/19 (announced 19 December 2017), has since confirmed the extension of that flexibility for a further 3 years to April 2022.
3. The guidance on the flexible use of capital receipts recommends that each authority should prepare, publish and maintain a Flexible Use of Capital Receipts Strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council or the equivalent.

This document constitutes the Cornwall Council strategy.

The Guidance

4. The latest guidance, issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003, directs that:
“Authorities may treat expenditure which is incurred in the design of projects that will generate on-going revenue savings in public services or that will transform service delivery to reduce costs or manage demand in future years for public service partners as capital expenditure. Such expenditure must be incurred between 1 April 2016 and 31 March 2022.”
5. The guidance specifies that:
 - Local authorities can only use capital receipts from the sale of property, plant and equipment received in the years in which the flexibility is offered i.e. 1 April 2016 to 31 March 2022. They may not use their existing stock of capital receipt to finance the revenue cost of reform.
 - Local Authorities cannot borrow to finance the revenue cost of the service reforms
 - The expenditure for which the flexibility can be applied should be the up front (set up or implementation) costs that will generate future on going savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in the future. The ongoing revenue costs of the new processes or arrangements cannot be considered as qualifying expenditure.
 - In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

6. Qualifying expenditure is expenditure on any project that is designed to generate on going revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.
7. Within the above definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

The Council's Proposals

8. The Council has reviewed the Flexible Use of Capital Receipts guidance and identified the following schemes as meeting the eligibility criteria laid out in the guidance document, in that they are forecast to generate ongoing revenue savings through reducing costs of service delivery:

	Actual 2016/17 (£m)	Actual 2017/18 (£m)	Forecast 2018/19 (£m)	Forecast 2019/20 (£m)	Total (£m)
Library Information Services Transformation (phase 1)	0.068	0.157	0.589	0.186	1.000
Library Information Services Transformation (phase 2)			0.325	0.075	0.400
Adult Care & Support Day Centre Transformation			0.165		0.165
	0.068	0.157	1.079	0.261	1.565

9. The Strategy will be monitored throughout the financial year and may be updated as proposals are developed and expenditure incurred. In applying the Capital Receipts Flexibility, the Council shall also have due regard to the requirements of the Prudential Code and Local Authority Code of Practice.